

ROCKCASTLE COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012
WITH
REPORT OF INDEPENDENT AUDITORS**

CONTENTS

Report of Independent Auditors	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet – Governmental Funds	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	13
Statement of Net Assets – Proprietary Funds	14
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	15
Statement of Cash Flows – Proprietary Funds.....	16
Statement of Fiduciary Net Assets – Fiduciary Funds	17
Notes to Basic Financial Statements	18

Supplementary Information

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	37
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	38
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – School Construction Fund	39
Notes to Required Supplementary Information	40
Combining Balance Sheet – Nonmajor Governmental Funds	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	42
Statement of Receipts, Disbursements, and Fund Balances – Elementary, Middle, and Alternative School Activity Funds	43
Statement of Receipts, Disbursements, and Fund Balances – Rockcastle County High School Activity Funds	44
Schedule of Expenditures of Federal Awards	46
Notes to the Schedule of Expenditures of Federal Awards.....	48
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	51
Schedule of Findings and Questioned Costs – Major Programs	54
Schedule of Prior Year Audit Findings.....	56
Independent Auditors' Transmittal Letter for Management Letter Comments.....	57
Management Letter Comments	58

REPORT OF INDEPENDENT AUDITORS

Kentucky State Committee for
School District Audits
Members of the Board of Education
Rockcastle County School District
Mt. Vernon, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Rockcastle County School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 5, 2012, on our consideration of Rockcastle County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information per the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rockcastle County School District's financial statements as a whole. The supplementary information per the table of contents, including the schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements of the Rockcastle County School District. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material aspects in relation to the basic financial statements as a whole. The introductory section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

CLOYD & ASSOCIATES, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
November 5, 2012

ROCKCASTLE COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) **Year ended June 30, 2012**

As management of the Rockcastle County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the General Fund was \$3,803,176. The year ended with a balance of \$4,254,922. This is an increase of \$451,745.
- The school district continues a concentrated effort to build and maintain facilities that are state of the art and well maintained. The district is composed of three elementary schools (grades P-5), one middle school (grades 6-8), one high school (grades 9-12), one area technology center school (grades 9-12), and an alternative school (grades 6-12) in addition to a central office and a central teaching and training center.
- The board initiated no new major construction projects nor issued bonds in fiscal 2012.
- During fiscal 2012, the district continued to be impacted by the declining economy through various funding sources. One item that impacts the district financially, as with all Kentucky school districts, is the fact that several grants received are being funded at constant or lesser levels. Also, the fact that maintaining staff at constant levels requires substantial increases in expenditures due to longevity incremental increases and teacher rank changes. Therefore, staff layoffs are a potential factor as the trend continues. In order not to have staff layoffs the State education budget has to accommodate all programs within the salary mandates, but in past years the funding did not allow for the amounts required to maintain historical staffing levels. In addition, the State education budget does not allocate ample funding for staff paid by federal grants.
- The school district continues the commitment of maintaining salaries for all staff at a level for the average of each classification of staff to be at least the average for the surrounding school districts within the region.
- The General Fund had \$26,411,128 in revenue (including \$3,803,176 carry forward, and \$4,518,998 of payments made by the state on-behalf of the district). The General Fund revenue consisted primarily of the state's educational funding program (SEEK) in addition to local property taxes (real, tangible, and motor vehicle), utility taxes, and minimal indirect federal funds. There was \$22,156,207 in general fund expenditures.
- Bonds are issued consistent with the District's long-range facilities plan that has been established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.

ROCKCASTLE COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED Year ended June 30, 2012

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed asset acquisitions and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on the table of contents of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on the table of contents of this report.

ROCKCASTLE COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$28,251,027; proprietary assets exceeded liabilities by \$848,877 and total assets exceeded liabilities by \$29,099,904 at June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The School District as a Whole

	2012	2011
Current and other assets	\$ 6,538,736	\$ 7,221,325
Capital assets	31,779,036	32,383,606
Total Assets	<u>38,317,772</u>	<u>39,604,931</u>
Current liabilities	1,592,719	2,477,467
Noncurrent liabilities	7,625,149	8,595,061
Total Liabilities	<u>9,217,868</u>	<u>11,072,528</u>
Investment in capital assets, net of related debt	23,384,037	23,028,606
Restricted net assets	1,626,131	1,541,161
Unrestricted net assets	4,089,736	3,962,636
Total Net Assets	<u>\$ 29,099,904</u>	<u>\$ 28,532,403</u>

There has been a slight increase in the financial position of the District since the prior year. Unrestricted net assets increased by \$127,100 from the prior year.

ROCKCASTLE COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) Year ended June 30, 2012

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Revenues and other financing sources		
Local revenue sources	\$ 3,129,467	\$ 3,074,413
State revenue sources	21,575,558	20,729,743
Federal revenue	<u>3,725,999</u>	<u>3,841,213</u>
Total Revenue	<u>28,431,025</u>	<u>27,645,369</u>
Expenditures and other financing uses		
Instruction	17,243,166	17,060,402
Student support services	1,284,396	1,354,344
Instructional support	1,466,006	1,321,905
District administration	632,556	693,625
School administration	1,194,235	1,201,166
Business operations	204,951	183,093
Plant operation and maintenance	2,218,863	2,141,452
Student transportation	2,079,722	2,092,632
Other instructional	-	13,377
Community services	313,657	330,909
Debt service	1,208,599	1,322,565
Building acquisitions and construction	<u>248,012</u>	<u>445,134</u>
Total expenditures	<u>28,094,163</u>	<u>28,160,604</u>
Excess revenues (expenditures)	<u>336,862</u>	<u>(515,235)</u>
Other financing sources (uses)		
Bond proceeds	-	3,835,000
Payments to Escrow for Refunding		(3,767,360)
Transfers in	1,073,539	1,435,309
Transfers out	(1,073,539)	(1,435,309)
Proceeds from sale of assets	<u>5,380</u>	<u>10,375</u>
Total other financing sources (uses)	<u>5,380</u>	<u>78,015</u>
Net change in fund balance	<u>342,242</u>	<u>(437,221)</u>

On behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments made by the state on behalf of employees to various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense, as mandated by the KDE and are credited to revenues; therefore, having no effect on the District level fund balance.

ROCKCASTLE COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) **Year ended June 30, 2012**

BUDGETARY IMPLICATION

In Kentucky, the public school district's fiscal year is July 1 through June 30; however, other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency (recommend 5% minimum). The District adopted a budget with an 11% contingency in an attempt to maintain present staffing levels for as long as possible. Items of note that impacts the District budget includes increased salary and salary fixed costs, less revenue flow to the District, the need for improving programming and meeting the academic audit standards, and No Child Left Behind requirements. In addition, the fact that the local board of education constantly reacts toward showing a strong commitment in providing resources for high level instructional strategies that are researched based. Also, the board maintains a commitment toward state of the art facilities which dictates a better learning environment for students. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

Questions regarding this report should be directed to the Superintendent at (606) 256-2125, or to the Finance Officer, Melanie Lyons at (606) 256-2125 or by mail at Rockcastle County Schools, 245 Richmond Street, Mt. Vernon, Kentucky, 40456.

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 476,225	\$ 189,326	\$ 665,551
Investments	5,025,000	-	5,025,000
Accounts receivable:			
Taxes	28,906	-	28,906
Other	-	-	-
Intergovernmental - State	13,565	-	13,565
Intergovernmental - Federal	673,617	-	673,617
Inventory	-	40,741	40,741
Bond Issue Costs (net)	91,355	-	91,355
Capital Assets, net			
Nondepreciable	1,945,153	-	1,945,153
Depreciable	29,179,582	654,301	29,833,883
Total assets	37,433,404	884,368	38,317,772
LIABILITIES			
Accounts payable	141,363	35,491	176,854
Deferred revenue	257,310	-	257,310
Current maturities of bond obligations	965,000	-	965,000
Current portion of accumulated sick leave	132,059	-	132,059
Interest payable	61,496	-	61,496
Noncurrent maturities of bond obligations	7,430,000	-	7,430,000
Noncurrent portion of accumulated sick leave	195,149	-	195,149
Total liabilities	9,182,377	35,491	9,217,868
NET ASSETS			
Invested in capital assets, net of related debt	22,729,736	654,301	23,384,037
Restricted for:			
Capital expenditures	1,406,555	-	1,406,555
Other	25,000	194,576	219,576
Unrestricted	4,089,736	-	4,089,736
Total net assets	\$ 28,251,027	\$ 848,877	\$ 29,099,904

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities						
Instruction	\$ 18,207,375	\$ -	\$ 7,610,666	\$ -	\$ (10,596,709)	\$ (10,596,709)
Student	1,284,781	-	478,993	-	(805,788)	(805,788)
Instructional support	1,475,289	-	585,436	-	(889,853)	(889,853)
District administration	639,398	-	159,664	-	(479,734)	(479,734)
School administration	1,197,665	-	266,107	-	(931,558)	(931,558)
Business operations	207,920	-	53,221	-	(154,699)	(154,699)
Plant operations and maintenance	2,222,604	-	532,214	-	(1,690,389)	(1,690,389)
Student transportation	2,026,356	-	638,657	-	(1,387,699)	(1,387,699)
Community services	313,916	-	319,329	-	5,413	5,413
Interest on long-term debt	249,788	-	-	-	(249,788)	(249,788)
Total governmental activities	27,825,092	-	10,644,288	-	(17,180,804)	(17,180,804)
Business-type activities						
Food service	1,737,887	379,578	1,313,819	-	(44,490)	(44,490)
Total business-type activities	1,737,887	379,578	1,313,819	-	(44,490)	(44,490)
Total primary government	\$ 29,562,979	\$ 379,578	\$ 11,958,107	\$ -	(17,180,804)	(17,225,294)
General revenues						
Taxes:						
Property					1,716,443	1,716,443
Motor vehicle					370,182	370,182
Utilities					765,605	765,605
Earnings on investments					125,904	128,930
Slate grants					14,657,269	14,657,269
Other local amounts					151,333	151,333
Gain/ (Loss) on disposal of assets					3,319	3,033
Transfers					-	-
Total general revenues					17,790,055	17,792,795
Change in net assets					609,251	567,501
Net assets as of June 30, 2011					27,641,776	28,532,403
Net assets as of June 30, 2012					\$ 28,251,027	\$ 29,099,904

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS Year ended June 30, 2012

	General Fund	Special Revenue Funds	School Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ 1,227,393	\$ 179,265	\$ 1,406,658
Investments	5,000,000	-	-	25,000	5,025,000
Accounts receivable:					
Taxes	28,906	-	-	-	28,906
Other	-	-	-	-	-
Intergovernmental - State	-	13,565	-	-	13,565
Intergovernmental - Federal	-	673,617	-	-	673,617
Total assets	\$ 5,028,906	\$ 687,182	\$ 1,227,393	\$ 204,265	\$ 7,147,746
LIABILITIES AND FUND BALANCES					
Liabilities					
Checks written in excess of account balance	\$ 529,187	\$ 401,246	\$ -	\$ -	\$ 930,433
Accounts payable	112,738	28,626	-	-	141,363
Deferred revenue	-	257,310	-	-	257,310
Current portion of accumulated sick leave	132,059	-	-	-	132,059
Total liabilities	773,984	687,182	-	-	1,461,166
Fund balances					
Restricted	-	-	1,227,393	179,265	1,406,658
Nonspendable	-	-	-	25,000	25,000
Unassigned	4,254,922	-	-	-	4,254,922
Total fund balances	4,254,922	-	1,227,393	204,265	5,686,580
Total liabilities and fund balances	\$ 5,028,906	\$ 687,182	\$ 1,227,393	\$ 204,265	\$ 7,147,746

ROCKCASTLE COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

Year ended June 30, 2012

Total fund balances - governmental funds \$ 5,686,580

Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets used in governmental activities are not current financial
resources; therefore, are not reported as assets in governmental funds. 31,124,736

Bond issuance costs are expensed in the fund financial statements, but they
are capitalized and amortized over the life of the bond in the statement
of net assets. 91,355

Bonds payable are not reported in the governmental fund balance sheet
since they are not due or payable in the current period, but they
are presented in the statement of net assets. (8,395,000)

Long-term portion of accumulated sick leave is not reported in the governmental
fund balance sheet because it is not due or payable in the current period,
but it is presented in the statement of net assets. (195,149)

Interest payable is not reported in the governmental fund balance sheet
because it is not due or payable in the current period, but it is presented
in the statement of net assets. (61,496)

Total net assets - governmental activities \$ 28,251,027

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS Year ended June 30, 2012

	General Fund	Special Revenue Funds	School Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 1,463,614	\$ -	\$ -	\$ 252,829	\$ 1,716,443
Motor vehicle	370,182	-	-	-	370,182
Utility	765,605	-	-	-	765,605
Earnings on investments	112,044	1,520	12,340	-	125,904
Other local	150,613	721	-	-	151,333
Intergovernmental - State	19,343,103	884,677	-	1,347,779	21,575,558
Intergovernmental - Federal	184,669	3,541,331	-	-	3,725,999
Total revenues	22,389,828	4,428,249	12,340	1,600,608	28,431,025
Expenditures					
Current:					
Instruction	13,586,587	3,656,579	-	-	17,243,166
Student	1,096,060	188,336	-	-	1,284,396
Instructional support	1,217,356	248,650	-	-	1,466,006
District administration	632,556	-	-	-	632,556
School administration	1,194,235	-	-	-	1,194,235
Business operations	204,951	-	-	-	204,951
Plant operations and maintenance	2,218,863	-	-	-	2,218,863
Student transportation	2,005,599	74,123	-	-	2,079,722
Educational specific	-	-	-	-	-
Community services	-	313,657	-	-	313,657
Architectural and engineering	-	-	-	-	-
Building acquisitions and construction	-	-	248,012	-	248,012
Debt service	-	-	-	1,208,599	1,208,599
Total expenditures	22,156,207	4,481,345	248,012	1,208,599	28,094,163
Excess (deficit) of revenues over (under) expenditures	233,621	(53,096)	(235,672)	392,009	336,862
Other financing sources (uses)					
Proceeds from sale of assets	5,380	-	-	-	5,380
Proceeds from refunding	-	-	-	-	-
Payment to escrow agent	-	-	-	-	-
Transfers in	212,744	53,096	-	807,699	1,073,539
Transfers out	-	-	(53,096)	(1,020,443)	(1,073,539)
Total other financing sources (uses)	218,124	53,096	(53,096)	(212,744)	5,380
Net change in fund balance	451,745	-	(288,768)	179,265	342,242
Fund balance as of June 30, 2011	3,803,176	-	1,516,161	25,000	5,344,336
Fund balance as of June 30, 2012	\$ 4,254,922	\$ -	\$ 1,227,393	\$ 204,265	\$ 5,686,580

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2012

Net change in total fund balances - governmental funds	\$ 342,242
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year.	(682,404)
Bond issuance costs are reported as expenditures in the fund financial statements, since they use current resources; however, they are presented as assets in the statement of activities and amortized over the life of the bond.	(14,309)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net assets.	960,000
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities.	(1,192)
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the retirement obligations anticipated from existing financial resources.	<u>4,912</u>
Change in net assets - governmental activities	<u>\$ 609,251</u>

ROCKCASTLE COUNTY SCHOOL DISTRICT**STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
Year ended June 30, 2012**

	<u>Food Service Fund</u>	<u>Total</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 189,326	\$ 189,326
Accounts receivable	-	-
Inventory	<u>40,741</u>	<u>40,741</u>
Total current assets	<u>230,067</u>	<u>230,067</u>
Noncurrent assets		
Capital assets	1,405,075	1,405,075
Less accumulated depreciation	<u>(750,773)</u>	<u>(750,773)</u>
Total noncurrent assets	<u>654,301</u>	<u>654,301</u>
Total assets	<u>884,368</u>	<u>884,368</u>
LIABILITIES		
Checks written in excess of cash balance	-	-
Accounts payable	<u>35,491</u>	<u>35,491</u>
Total liabilities	<u>35,491</u>	<u>35,491</u>
NET ASSETS		
Invested in capital assets	654,301	654,301
Restricted	<u>194,576</u>	<u>194,576</u>
Total net assets	<u>\$ 848,877</u>	<u>\$ 848,877</u>

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
Year ended June 30, 2012**

	Food Service Fund	Total
Operating revenues		
Lunchroom sales	\$ 379,578	\$ 379,578
Other	-	-
Total operating revenues	<u>379,578</u>	<u>379,578</u>
Operating expenses		
Salaries and wages	603,426	603,426
Employee benefits	264,635	264,635
Materials and supplies	828,823	828,823
Depreciation	41,003	41,003
Other	-	-
Total operating expenses	<u>1,737,887</u>	<u>1,737,887</u>
Operating loss	<u>(1,358,309)</u>	<u>(1,358,309)</u>
Nonoperating revenues		
Federal grants	1,097,844	1,097,844
State grants	123,739	123,739
Donated commodities	92,236	92,236
Interest income	3,026	3,026
Loss on disposal of assets	<u>(286)</u>	<u>(286)</u>
Total nonoperating revenues/(expenses)	<u>1,316,559</u>	<u>1,316,559</u>
Income before contributions		
Transfers and special items	(41,750)	(41,750)
Transfers in	<u>-</u>	<u>-</u>
Change in net assets	<u>(41,750)</u>	<u>(41,750)</u>
Net assets as of June 30, 2011	<u>890,627</u>	<u>890,627</u>
Net assets as of June 30, 2012	<u>\$ 848,877</u>	<u>\$ 848,877</u>

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS

Year ended June 30, 2012

	Food Service Fund	Total
Cash flows from operating activities		
Cash received from:		
Lunchroom sales	\$ 379,578	\$ 379,578
Other activities	-	-
Cash paid to/for:		
Employees	(868,060)	(868,060)
Supplies	(702,788)	(702,788)
Other activities	-	-
Net cash used in operating activities	<u>(1,191,271)</u>	<u>(1,191,271)</u>
Cash flows from non-capital financing activities		
Grants received	1,221,583	1,221,583
Transfers in	-	-
Net cash used in non-capital financing activities	<u>1,221,583</u>	<u>1,221,583</u>
Cash flows from investing activities		
Purchase of fixed assets	(119,125)	(119,125)
Interest received on investments	3,026	3,026
Net cash used in capital and related activities	<u>(116,098)</u>	<u>(116,098)</u>
Net increase in cash and cash equivalents	(85,786)	(85,786)
Cash and cash equivalents as of June 30, 2011	<u>275,112</u>	<u>275,112</u>
Cash and cash equivalents as of June 30, 2012	<u>\$ 189,326</u>	<u>\$ 189,326</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income/ (loss)	\$ (1,358,309)	\$ (1,358,309)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Increase) decrease in accounts receivable	-	-
(Increase) decrease in inventory	3,079	3,079
Increase (decrease) in accounts payable	30,720	30,720
Purchase of fixed assets	-	-
Depreciation	41,003	41,003
Commodities received	92,236	92,236
Net cash used in operating activities	<u>\$ (1,191,271)</u>	<u>\$ (1,191,271)</u>
Schedule of non-cash transactions:		
Loss on disposal of assets	\$ (286)	\$ (286)
Depreciation	41,003	41,003
Donated commodities	92,236	92,236
Total non-cash transactions	<u>\$ 132,953</u>	<u>\$ 132,953</u>

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

Year ended June 30, 2012

	Agency Funds	Fiscal Agent Fund	Total Fiduciary Funds
ASSETS			
Cash	\$ 391,565	\$ -	\$ 391,565
Accounts receivable	<u>768</u>	<u>-</u>	<u>768</u>
Total assets	<u>392,333</u>	<u>-</u>	<u>392,333</u>
LIABILITIES			
Accounts payable	4,603	-	4,603
Due to student groups	<u>387,729</u>	<u>-</u>	<u>387,729</u>
Total liabilities	<u>392,333</u>	<u>-</u>	<u>392,333</u>
Total net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2012

1. Reporting entity

The Rockcastle County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Rockcastle County School District (District). The District receives funding from Local, State, and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, as Board members are elected by the public, have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the District. The basic financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself, such as Band Boosters, Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue, and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

The basic financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the basic financial statements of the following organization is included in the accompanying basic financial statements:

Rockcastle County School District Finance Corporation – In a prior year, the Rockcastle County, Kentucky, Board of Education resolved to authorize the establishment of the Rockcastle County School District Finance Corporation (Corporation), (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Rockcastle County Board of Education comprise the Corporation's Board of Directors.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2012

2. Basis of presentation and summary of significant accounting policies

Government-wide financial statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The activities of the District are generally financed through state funding, property taxes, and Federal, State, and Local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities and each segment of the business-type activities of the District. Direct expenses are those that are specifically associated with a service, program, or function. The District charges indirect expenses to programs or functions in accordance to preset formulas. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

2. Basis of presentation and summary of significant accounting policies (continued)

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's principal operations. The fund's principal operating revenues are food service charges. Operating expenses include food production costs, supplies, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

a. *Governmental fund types*

The *General Fund* is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a major fund of the District.

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This is a major fund of the District.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

2. Basis of presentation and summary of significant accounting policies (continued)

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the State as Capital Outlay Funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations).
2. The *Facility Support Program (FSPK) Fund* accounts for funds generated by the building tax levy that is required for participation in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The *School Construction Fund* includes capital projects the fund also accounts for proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

The *Debt Service Fund* is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest and related costs, and for the payment of interest on general obligation notes payable, as required by Kentucky law.

b. Proprietary fund types

The *School Food Service Fund* accounts for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to proprietary funds, unless those pronouncements conflict with or contradict GASB pronouncements.

c. Fiduciary fund type

The *Agency Funds* account for activities of student groups and other types of activities requiring clearing accounts. Certain agency funds comply with *Accounting Procedures for Kentucky School Activity Funds*.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

2. Basis of presentation and summary of significant accounting policies (continued)

d. *Permanent fund type*

The *Trust Fund* reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government programs.

Budgetary process – Budgetary Basis of Accounting: The District's budgetary process accounts for transactions on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year.

Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. This budget must contain a 2% reserve, but not greater than 10%.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Cash and cash equivalents - The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Inventories – Supplies and materials are charged to expense when purchased (purchases method).

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

2. Basis of presentation and summary of significant accounting policies (continued)

Prepaid assets – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Bond issue costs – Costs associated with the issuance of bond obligations, including fiscal and rating agency fees, paying agent fees, and attorney fees, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Capital assets – General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds and are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers and related equipment for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; whereas, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land and construction-in-progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

2. Basis of presentation and summary of significant accounting policies (continued)

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20-50 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	12 years
Other	10 years

Accrued liabilities and long-term obligations – All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements, but only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Deferred revenue – Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Accumulated sick leave – Sick leave benefits are accrued as a liability using the vesting method based on employees with 27 or more years of service and employees 55 years of age and older with more than five years of service. The current portion of the liability is estimated based on the District's historical trends and anticipated payments.

Net assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

2. Basis of presentation and summary of significant accounting policies (continued)

the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Contributions of capital – Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, grants, or outside contributions of resources restricted to capital acquisition and construction.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Encumbrance accounting – Encumbrances are not liabilities; therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Estimates – The preparation of basic financial statements requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Fund Balance – The Board has adopted GASB Statement number 54 in the current reporting period. This statement substantially changes the terminology used to describe different components of fund balance. Under this statement, fund balance is separated into five categories, as follows:

<i>Nonspendable</i>	Permanently nonspendable by decree of the donor, such as an endowment, or items which may not be used for another purpose, such as amounts used to prepay future expenses or already-purchased inventory on hand.
<i>Restricted</i>	Legally restricted under federal or state law, bond authority, or grantor contract.
<i>Committed</i>	Commitments passed by the Board.
<i>Assigned</i>	Funds assigned to management priority including issued encumbrances.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

2. Basis of presentation and summary of significant accounting policies (continued)

Unassigned Funds available for future operations.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities; therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2012, in the governmental funds balance sheet.

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. To maintain balances above this level, they recommend reserving at least 5%.

3. Cash and cash equivalents

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2012, the carrying amount of the District's cash, cash equivalents, and investments, including governmental and proprietary cash balances, was \$5,690,550 and the bank balance was \$6,505,997. The District held an additional \$397,563 in agency for various groups. Of the total cash balance, \$500,000 was covered by Federal depository insurance, with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust department in the District's name. By state statute, and District policy, the District may deposit funds in state and nationally chartered banks which provide FDIC insurance and sufficient collateral to secure deposits in excess of FDIC coverage. Cash equivalents are funds temporarily invested in securities with maturities of 90 days or less. Investments are certificates of deposits with various local banks with a maturity of ninety days (90) or greater. The investments are secured by FDIC and assets pledged by the various local banks on – behalf of the District.

Cash is commingled in various bank accounts and short-term certificates of deposits. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash amount within the following funds is considered to be restricted:

Special Revenue Funds
SEEK Capital Outlay Fund
Facility Support Program (FSPK) Fund
School Construction Fund

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

3. Cash and cash equivalents (continued)

School Food Service Fund
Agency Funds

4. Investments

Funds of the District are considered to be public funds; therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds, as provided by KRS 66.480. At June 30, 2012, the District held \$5,025,000 in certificates of deposit considered to be investments. The investments are secured by FDIC and assets pledged by the various local banks on – behalf of the District.

5. Property taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the levy date. Property tax rates assessed for the year ended June 30, 2012 were \$.399 per \$100 valuation for real property, \$.404 per \$100 valuation for business property, and \$.483 per \$100 valuation for motor vehicles.

6. Receivables

The District recognizes revenues as receivable when they are measurable and receipt is certain. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. While the District receives revenues from many different sources throughout the year, the accounts and grants receivable from outside sources may be grouped into the following categories:

Accounts and grants receivable from outside sources	Governmental Funds	Proprietary Funds	Total
Accounts receivable	\$ -	\$ -	\$ -
Taxes receivable	28,906	-	28,906
Grants receivable	687,182	-	687,182
	<u>\$ 716,088</u>	<u>\$ -</u>	<u>\$ 716,088</u>

Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables when qualifying expenditures are incurred.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

7. Capital assets

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
Land	\$ 658,955	\$ -	\$ -	\$ 658,955
Land improvements	1,178,144	-	-	1,178,144
Buildings	41,113,690	-	-	41,113,690
Technology equipment	1,173,182	78,247	140,894	1,110,535
Vehicles	4,183,023	261,108	141,086	4,303,045
General equipment	334,342	6,236	1,354	339,224
Construction in progress	1,038,186	248,012	-	1,286,198
Total at historical cost	<u>49,679,522</u>	<u>593,604</u>	<u>283,334</u>	<u>49,989,791</u>
Less: Accumulated depreciation				
Land improvements	793,037	44,990	-	838,028
Buildings	13,120,808	877,581	-	13,998,389
Technology equipment	946,239	124,692	139,137	931,795
Vehicles	2,757,917	209,239	141,086	2,826,070
General equipment	254,380	17,444	1,050	270,775
Total accumulated depreciation	<u>17,872,382</u>	<u>1,273,947</u>	<u>281,273</u>	<u>18,865,056</u>
Governmental Activities				
Capital Assets-net	<u>31,807,140</u>	<u>(680,343)</u>	<u>2,062</u>	<u>31,124,735</u>
<u>Business-Type Activities</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2012</u>
Buildings and improvements	880,926	-	-	880,926
Food service equipment	430,851	119,125	25,827	524,149
Total at historical cost	<u>1,311,777</u>	<u>119,125</u>	<u>25,827</u>	<u>1,405,075</u>
Less: Accumulated depreciation				
Buildings and improvements	364,757	17,353	-	382,109
Food service equipment	370,555	23,650	25,541	368,664
Total accumulated depreciation	<u>735,312</u>	<u>41,003</u>	<u>25,541</u>	<u>750,773</u>
Business-Type Activities				
Capital Assets-net	<u>\$ 576,466</u>	<u>\$ 78,122</u>	<u>\$ 286</u>	<u>\$ 654,301</u>

ROCKCASTLE COUNTY SCHOOL DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED****Year ended June 30, 2012**

7. Capital assets (continued)

Depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 1,033,060
Student Support	385
Instructional support	9,283
District administration	6,842
School administration	3,430
Business operations	2,969
Plant operations and maintenance	9,977
Student transportation	207,742
Community services	258
Total	<u>\$ 1,273,947</u>

8. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Rockcastle County School District Finance Corporation.

The original amount of each issue, the issue date, interest rate, and summary of changes are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2011 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2012 Outstanding Balance</u>
Issue of 2006	1,600,000	7/1/2026	3.625-4.25%	1,290,000	-	70,000	1,220,000
Issue of 2008R	4,905,000	9/1/2020	3.4%	4,230,000	-	210,000	4,020,000
Issue of 2011R	3,835,000	4/1/2018	1.0-2.30%	3,835,000	-	680,000	3,155,000
Totals				<u>\$ 9,355,000</u>	<u>\$ -</u>	<u>\$ 960,000</u>	<u>\$ 8,395,000</u>

The District, through the General Fund, the Special Revenue Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Rockcastle County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

8. Bonded debt and lease obligations (continued)

The District, through the General Fund, is also obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kentucky Interlocal Transportation Association (KISTA) for the purchase of school buses.

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Generally, the participation agreements provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In the future, should the Kentucky General Assembly choose to not fund the Commission, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, as of June 30, 2012 for debt service (principal and interest) are as follows:

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2013	\$ 624,015	\$ 183,506	\$ 350,985	\$ 54,107	975,000
2014	\$ 640,532	\$ 173,357	\$ 139,468	\$ 47,180	780,000
2015	\$ 641,677	\$ 161,393	\$ 143,323	\$ 42,244	785,000
2016	\$ 667,692	\$ 147,175	\$ 147,308	\$ 37,170	815,000
2017	\$ 668,459	\$ 131,011	\$ 156,541	\$ 31,834	825,000
2018	\$ 664,689	\$ 113,935	\$ 135,311	\$ 26,695	800,000
2019	\$ 754,760	\$ 86,619	\$ 140,240	\$ 21,791	895,000
2020	\$ 779,639	\$ 60,447	\$ 145,361	\$ 16,708	925,000
2021	\$ 877,529	\$ 33,473	\$ 117,471	\$ 12,002	995,000
2022	\$ 78,814	\$ 16,502	\$ 41,186	\$ 8,998	120,000
2023	\$ 82,024	\$ 13,152	\$ 42,976	\$ 7,248	125,000
2024	\$ 80,159	\$ 9,666	\$ 44,841	\$ 5,421	125,000
2025	\$ 83,212	\$ 6,259	\$ 46,788	\$ 3,516	130,000
2026	\$ 64,065	\$ 2,723	\$ 35,935	\$ 1,527	100,000
	<u>\$ 6,707,266</u>	<u>\$ 1,139,218</u>	<u>\$ 1,687,734</u>	<u>\$ 316,442</u>	<u>8,395,000</u>

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

9. Accumulated unpaid sick leave benefits

Upon retirement from the school system, certain employees will receive from the District an amount equal to 30% of the value of accumulated sick leave.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account accumulated sick leave payable in the General Fund. The noncurrent portion of the liability is not reported in the government fund financial statements.

A summary of the accumulated unpaid sick leave benefits for the fiscal year ended June 30, 2012 is as follows:

Balance as of June 30, 2011	\$ 332,121
Net change	<u>(4,913)</u>
Balance as of June 30, 2012	327,208
Less current portion	<u>132,059</u>
Long-term portion	<u>\$ 195,149</u>

10. Commitments and contingencies

The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2012 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

11. Retirement plans

Kentucky Teachers Retirement System

Plan Description – The Rockcastle County School District contributes to the Kentucky Teacher's Retirement System ("KTRS"), a cost-sharing, multiple-employer defined benefit plan. KTRS administers retirement and disability annuities, as well as, death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and the required supplementary information for the defined benefit plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky, 40601 or from the KTRS website at <http://www.ktrs.gov/>.

Funding Policy – Contribution rates are established by KRS. Members who established an account in a state retirement system before July 1, 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 1, 2008 contribute an additional 0.50% or 10.855% of their salaries to KTRS. The Commonwealth of Kentucky, on behalf of the District's certified employees, is required to contribute 13.355% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The Commonwealth of Kentucky requires payments for federally funded employees to be made by such federal funds.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance, and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

11. Retirement Plans (Continued)

Funding Policy – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011-2012 fiscal year.

The Rockcastle County School District total payroll for the year was \$17,458,552. The payroll for employees covered under KTRS was \$13,242,944. For the year ended June 30, 2012, the Commonwealth of Kentucky contributed \$1,615,185 to KTRS for the benefit of participating employees. The District's contributions (including employee and employer contributions) to KTRS for the year ended June 30, 2012, 2011, and 2010 were \$1,565,750, \$1,493,734, and \$1,554,417, respectively. The District's contribution was equal to the required contribution for that year.

County Employees Retirement System

Employees who work an average of 80 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple employer, public employees retirement system created and operating under Kentucky Law.

Plan Description - The County Employees Retirement System covers substantially all regular non-certified (classified personnel) full time employees of the District. The plan provides for retirement, disability, and death benefits. The CERS issues a publicly available financial report that includes financial statement and required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601.

Funding Policy – Plan members are required to contribute 5% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of the un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates. The current District contribution rate is 18.96% of the employee's total covered compensation.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

11. Retirement Plans (Continued)

The contribution requirements of Plan members and the District are established and may be amended by Kentucky Retirement System's Board of Trustees. The District's contributions (including matching contributions and employee contributions) to CERS for the years ended June 30, 2012, 2011, and 2010 were \$976,763, \$817,365, and \$802,657, respectively. The District's contributions were equal to the required contribution for those years.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pension's funding status on a going-concern basis, assess progress made in the accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

CERS and KTRS does not make separate measurements of assets and pension benefit obligation for individual employers. As the District is only one of several employers participating in the Plans, it is not practicable to determine the District's portion of the unfunded past service cost of the vested benefits of the District's portion of the Plan assets.

12. On-behalf payments for fringe benefits

The District receives on-behalf payments for fringe benefits from the Commonwealth of Kentucky. The following payments for fringe benefits are included as revenues and expenses on the statement of activities:

Retirement contributions to the Teachers'	
Retirement System of Kentucky	\$ 1,615,185
Health and Life Insurance	2,945,227
Other	<u>66,302</u>
Total	<u>\$ 4,626,714</u>

These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts. On-behalf payments were allocated to the General Fund in the amount of \$4,518,998 and to School Food Services in the amount of \$107,716.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

13. Insurance and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, including workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

14. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund (Liability Insurance Fund or Trust). These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reasons by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Liability Insurance Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

15. Deficit operating/fund balances

The following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Business-Type Activities	\$	41,750
School Construction Fund	\$	288,768
Food Service Fund	\$	41,750

16. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss contingency.

17. Transfer of Funds

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Construction	Special Revenue	KETS Match	\$ 53,096
Capital Outlay	General	COFT	\$ 212,744
FSPK	Debt Service	Bond Payments	\$ 807,699

18. Subsequent Events

The Rockcastle County School District did not have any subsequent events through November 5, 2012, which is the date the financial statements were available to be issued for events requiring or disclosure in the financial statements for the period ending June 30, 2012.

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes:				
Property	\$ 1,468,000	\$ 1,468,000	\$ 1,463,614	\$ (4,386)
Motor vehicle	325,000	325,000	370,182	45,182
Utility	725,000	725,000	765,605	40,605
Earnings on investments	125,000	125,000	112,044	(12,956)
Other local	136,000	136,000	150,613	14,613
Intergovernmental - State	15,025,404	14,586,154	19,343,103	4,756,949
Intergovernmental - Federal	60,000	60,000	184,669	124,669
Total revenues	<u>17,864,404</u>	<u>17,425,154</u>	<u>22,389,830</u>	<u>4,964,676</u>
Expenditures				
Current:				
Instruction	11,782,731	11,177,794	13,586,587	(2,408,793)
Student	1,136,502	1,095,802	1,096,060	(258)
Instructional staff	742,823	722,221	1,217,356	(495,135)
District administration	609,641	640,441	632,556	7,885
School administration	978,239	981,673	1,194,235	(212,562)
Business	207,065	207,265	204,951	2,314
Plant operations and maintenance	2,129,128	2,152,102	2,218,863	(66,761)
Student transportation	1,792,540	1,962,121	2,005,599	(43,478)
Total expenditures	<u>19,378,669</u>	<u>18,939,419</u>	<u>22,156,207</u>	<u>(3,216,788) *</u>
Excess (deficit) of revenues over (under) expenditures	(1,514,265)	(1,514,265)	233,623	1,747,888
Other financing sources (uses)				
Proceeds from sale of assets	7,500	7,500	5,380	(2,120)
Transfers in	-	-	212,744	212,744
Total other financing sources (uses)	<u>7,500</u>	<u>7,500</u>	<u>218,124</u>	<u>210,624</u>
Net change in fund balance	(1,506,765)	(1,506,765)	451,747	1,958,512
Fund balance as of June 30, 2011	<u>4,250,000</u>	<u>3,803,176</u>	<u>3,803,176</u>	<u>-</u>
Fund balance as of June 30, 2012	<u>\$ 2,743,235</u>	<u>\$ 2,296,411</u>	<u>\$ 4,254,922</u>	<u>\$ 1,958,511</u>

* For the year ended June 30, 2012, actual revenues and expenditures exceeded appropriations in various categories primarily due to on-behalf payments made by the Commonwealth of Kentucky for the Rockcastle County School District. These amounts are included in the actual revenues and expenditures, but are not included in the budgeted amounts.

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 1,520	\$ 1,520
Other local	-	67,000	721	(66,279)
Intergovernmental - State	790,799	695,309	884,677	189,368
Intergovernmental - Federal	<u>2,371,759</u>	<u>2,480,223</u>	<u>3,541,331</u>	<u>1,061,108</u>
 Total revenues	 <u>3,162,558</u>	 <u>3,242,532</u>	 <u>4,428,249</u>	 <u>1,185,717</u>
Expenditures				
Current:				
Instruction	1,955,285	2,291,536	3,656,579	(1,365,044)
Student	157,456	165,256	188,336	(23,080)
Instructional staff	394,223	404,261	248,650	155,611
Student transportation	324,686	67,823	74,123	(6,300)
Community service	<u>330,909</u>	<u>313,657</u>	<u>313,657</u>	<u>-</u>
 Total expenditures	 <u>3,162,558</u>	 <u>3,242,532</u>	 <u>4,481,345</u>	 <u>(1,238,813)</u>
 Deficit of revenues under expenditures	 -	 -	 (53,096)	 (53,096)
Other financing sources				
Operating transfers in	-	-	53,096	53,096
Total other financing sources	<u>-</u>	<u>-</u>	<u>53,096</u>	<u>53,096</u>
 Net change in fund balance	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Fund balance as of June 30, 2011	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Fund balance as of June 30, 2012	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SCHOOL CONSTRUCTION FUND Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 12,340	\$ 12,340
Miscellaneous revenues	-	-	-	-
Total revenues	-	-	12,340	12,340
Expenditures				
Architectural and engineering	-	-	-	-
Building acquisitions and construction	-	-	248,012	(248,012)
Total expenditures	-	-	248,012	(248,012)
Deficit of revenues under expenditures	-	-	(235,672)	(235,672)
Other financing sources				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(53,096)	(53,096)
Total other financing sources	-	-	(53,096)	(53,096)
Net change in fund balance	-	-	(288,768)	288,768
Fund balance as of June 30, 2011	-	-	1,516,161	1,516,161
Fund balance as of June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,227,393</u>	<u>\$ 1,227,393</u>

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30, 2012

Because of the nature of certain transactions allocated to the general fund, specific revenue, expenditures, and other financing sources and uses were not budgeted in the General Fund by the District during the year ending June 30, 2012. A schedule of non-budgeted transactions is presented below.

Non-budgeted revenues

Intergovernmental state revenue - on-behalf payments	<u>\$ 4,518,998</u>
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Non- budgeted expenditures

On-behalf expenditures

Instruction	\$ 3,398,129
Student	16,530
Instructional staff support	493,890
District administration	61,644
School administration	249,449
Business support services	25,865
Plant operations and maintenance	115,007
Student transportation	<u>158,483</u>

Total non-budgeted on-behalf expenditures	<u>\$ 4,518,998</u>
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ROCKCASTLE COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NON MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2012

	Facility Support Program (FSPK) Fund	SEEK Capital Outlay Fund	Permanent Fund	Debt Service Fund	Total Non-major Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 126,530	\$ 52,735	\$ -	\$ -	\$ 179,265
Investments	-	-	25,000	-	25,000
Total assets	126,530	52,735	25,000	-	204,265
FUND BALANCES					
Fund Balances					
Restricted	126,530	52,735	-	-	179,265
Nonspendable	-	-	25,000	-	25,000
Total fund balances	\$ 126,530	\$ 52,735	\$ 25,000	\$ -	\$ 204,265

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2012

	Facility Support Program (FSPK) Fund	SEEK Capital Outlay Fund	Permanent Fund	Debt Service Fund	Total Non-major Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 252,829	\$ -	\$ -	\$ -	\$ 252,829
Intergovernmental - State	681,400	265,479	-	400,900	1,347,779
Total revenues	934,229	265,479	-	400,900	1,600,608
Expenditures					
District Administrative Support	-	-	-	-	-
Educational Specific	-	-	-	-	-
Debt service	-	-	-	1,208,599	1,208,599
Total expenditures	-	-	-	1,208,599	1,208,599
Other financing sources (uses)					
Proceeds from refunding	-	-	-	-	-
Payment to Escrow Agent	-	-	-	-	-
Transfers in	-	-	-	807,699	807,699
Transfers out	(807,699)	(212,744)	-	-	(1,020,443)
Total other financing sources (uses)	(807,699)	(212,744)	-	807,699	(212,744)
Net change in fund balance	126,530	52,735	-	-	179,265
Fund balance as of June 30, 2011	-	-	25,000	-	25,000
Fund balance as of June 30, 2012	<u>\$ 126,530</u>	<u>\$ 52,735</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 204,265</u>

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES - ELEMENTARY, MIDDLE, AND ALTERNATIVE SCHOOL ACTIVITY FUNDS Year ended June 30, 2012

School/ Activity Fund	Cash and Cash Equivalents June 30, 2011	Receipts	Disbursements	Cash and Cash Equivalents June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012
Rockcastle County Middle School	\$ 69,453	\$ 176,462	\$ 176,034	\$ 69,881	\$ 755	\$ 718	\$ 69,918
Brodhead Elementary	28,072	42,578	54,784	15,866	-	1,560	14,306
Mt. Vernon Elementary	49,675	103,313	96,125	56,864	13	-	56,876
Roundstone Elementary	9,954	29,009	28,723	10,240	-	-	10,240
Totals	\$ 157,154	\$ 351,362	\$ 355,666	\$ 152,850	\$ 768	\$ 2,278	\$ 151,340

The accompanying notes are an integral part of these financial statements

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
ROCKCASTLE COUNTY HIGH SCHOOL ACTIVITY FUNDS
Year ended June 30, 2012

	Fund Balances June 30, 2011	Receipts	Disbursements	Transfers in	Transfers Out	Cash and Cash Equivalents June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012
General	\$ 21,383	\$ 21,738	\$ 25,165	\$ 2,306	\$ -	\$ 20,262	\$ -	\$ -	\$ 20,262
Youth Services Center	2,928	1,839	1,593	50	-	3,224	-	-	3,224
UNITE	293	1,937	1,758	-	-	472	-	-	472
Game Club	1	-	-	-	-	1	-	-	1
PRIDE	796	-	-	-	-	796	-	-	796
Fellowship of Christian Athletes	180	1,285	1,178	-	-	286	-	-	286
Special Goods	-	128	18	-	-	110	-	-	110
Drivers Education	268	-	-	-	-	268	-	-	268
JROTC	3,813	12,322	6,474	-	4,860	4,802	-	-	4,802
RCHS Academic	208	588	516	149	-	428	-	-	428
Japanese Club	290	757	665	-	-	382	-	-	382
History Club	95	-	-	-	95	-	-	-	-
Creative Writing	28	30	-	-	-	58	-	-	58
STLP	77	-	-	-	-	77	-	-	77
Rocket Club	317	570	470	-	50	367	-	-	367
Young Republicans	41	689	498	-	-	232	-	-	232
Young Democrats	41	100	-	-	-	141	-	-	141
National Honor Society	249	-	235	-	14	-	-	-	-
Beta Club	1,292	355	304	-	-	1,343	-	-	1,343
Spanish National Honor Society	242	40	40	-	-	242	-	-	242
Film Appreciation Club	420	1,169	1,203	-	65	322	-	-	322
Key Club	3,220	9,263	2,449	-	-	10,034	-	-	10,034
Math Club	2	125	-	-	-	127	-	-	127
Y-Club	28	12,990	13,114	95	-	(0)	-	-	(0)
Band	1,223	31,509	31,206	-	-	1,525	-	-	1,525
Student Council	395	1,816	1,870	-	-	340	-	-	340
School Climate	698	604	1,346	44	-	0	-	-	0
Concessions	-	18,336	14,419	-	3,917	-	-	-	-
Faculty Vending	91	4,370	4,193	-	-	267	-	-	267
AP Exams	707	3,472	3,444	-	-	735	-	-	735
Chemistry AP	552	500	550	-	-	502	-	-	502
Physical Education	413	559	734	-	-	238	-	-	238
History - Social Studies	-	500	-	1,500	-	2,000	-	-	2,000
Athletics	107,594	60,340	25,137	-	27,782	115,015	-	1,799	113,216
BB-District-2012	-	11,082	2,802	-	8,280	-	-	-	-
Boys Basketball	-	-	5,628	5,628	-	-	-	-	-
Tip-off / Boys Basketball	3,944	15,160	16,012	-	-	3,091	-	12	3,079
Girls Basketball	-	24	11,079	11,054	-	-	-	-	-
Lady Rockets	18,954	26,986	24,182	-	5,577	16,181	-	12	16,169

(continued)

ROCKCASTLE COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES ROCKCASTLE COUNTY HIGH SCHOOL ACTIVITY FUNDS - CONTINUED Year ended June 30, 2012

	Fund Balances June 30, 2011	Receipts	Disbursements	Transfers in	Transfers Out	Cash and Cash Equivalents June 30, 2012	Accounts Receivable June 30, 2012	Accounts Payable June 30, 2012	Fund Balances June 30, 2012
Baseball	-	-	5,184	5,184	-	-	-	-	-
Dugout-RCHS-Baseball	-	21,578	19,639	-	906	1,033	-	276	757
Football	-	148	6,148	6,000	-	-	-	-	-
Softball	-	50	3,926	3,876	-	-	-	-	-
Softball Boosters	225	23,516	23,909	168	-	0	-	-	0
Girls Golf Boosters	566	4,550	1,877	-	-	3,239	-	-	3,239
Girls Golf	-	-	1,624	1,624	-	-	-	-	-
Boys Golf	-	-	1,177	1,177	-	-	-	-	-
Boys Golf Boosters	467	2,754	2,760	165	-	626	-	-	626
Ky Blue Golf	-	525	576	75	-	24	-	-	24
Track - Boys	-	-	944	944	-	-	-	-	-
Track - Girls	-	-	1,474	1,474	-	-	-	-	-
Cross Country - Girls	-	-	741	741	-	-	-	-	-
Cross Country - Boys	-	-	834	834	-	-	-	-	-
Boys Track Boosters	1,098	-	-	-	1,098	-	-	-	-
Volleyball Boosters	3,379	12,852	13,076	-	-	3,156	-	-	3,156
Volleyball	-	200	3,038	2,838	-	-	-	-	-
Soccer - Intramural	-	-	-	-	-	-	-	-	-
SWIM	-	-	953	953	-	-	-	-	-
Swim - Rockets	126	1,650	1,682	110	-	204	-	-	204
FFA	911	38,510	39,057	1,107	-	1,471	-	-	1,471
KY River Region FFA	-	781	-	-	708	73	-	-	73
FCCLA	76	5,452	4,756	-	-	772	-	35	737
Cheerleaders	1,993	13,968	12,730	-	-	3,232	-	192	3,040
Agriculture	8,153	3,554	3,401	-	-	8,306	-	-	8,306
AGR-Construction	3,439	2,000	2,783	-	-	2,656	-	-	2,656
Young Farmers	8,814	2,663	964	-	399	10,114	-	-	10,114
Art Boosters	-	3,030	3,030	-	-	-	-	-	-
Chorus	776	2,587	3,375	11	-	(0)	-	-	(0)
Prom	1,936	6,505	6,106	-	14	2,321	-	-	2,321
Yearbook	15,241	23,052	24,755	-	-	13,538	-	-	13,538
Euro	24	36	-	-	-	60	-	-	60
Emeric Sch. Interest	1,039	338	1,000	-	-	377	-	-	377
The Rocket Red Glare	408	-	-	-	-	408	-	-	408
Project Graduation 2011	636	45,686	50,674	5,660	-	1,307	-	-	1,307
UK - Readers Grant	4,290	-	2,961	-	-	1,329	-	-	1,329
Library	397	1,369	1,187	-	-	579	-	-	579
Tech Student Association	84	180	242	-	-	22	-	-	22
Total accounts	\$ 224,861	\$ 458,719	\$ 444,864	\$ 53,765	\$ 53,765	\$ 238,715	\$ -	\$ 2,325	\$ 236,390

ROCKCASTLE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education:				
<i>Child Nutrition Cluster</i>				
School Breakfast Program	10.553			
Fiscal Year 11		7760005-11	N/A	58,718
Fiscal Year 12		7760005-12		193,297
National School Lunch Program	10.555			
Fiscal Year 11		7750002-11	N/A	196,000
Fiscal Year 12		7750002-12		637,690
Summer Food Service Program for Children	10.559			
Fiscal Year 11		7740023-11	N/A	6,570
Fiscal Year 12		7740023-12	N/A	5,569
Child Nutrition Cluster Subtotal				<u>1,097,844</u>
Passed Through State Department of Agriculture				
Food Donation	10.555			
Fiscal Year 12		510-4950	N/A	92,236
				<u>92,236</u>
Total US Department of Agriculture				<u>1,190,080</u>
US Department of Commerce				
Passed Through Lake Cumberland ADD				
Pride Environmental Education	11.469			
Fiscal Year 12M		EF09-74-12	1,200	1,373
Total US Department of Commerce				<u>1,373</u>
US Department of Defense				
Passed directly from the US Treasury				
ROTC	12.000			
Fiscal Year 12		5042	62,000	66,202
Total US Department of Defense				<u>66,202</u>
US Department of Labor				
Passed Through Lake Cumberland ADD				
Workforce Investment Act	17.255			
Fiscal Year 11A		5881A	52,500	7,530
Fiscal Year 12A		5882A	48,250	47,280
Total US Department of Labor				<u>54,811</u>
Appalachian Regional Commission				
Passed Through Morehead State University				
Appalachian Research, Technical Assistance, and Demonstration Project	23.011			
Fiscal Year 11		6881	5,000	1,352
Total US Department of Justice				<u>1,352</u>
US Department of Education				
Passed Through State Department of Education				
<i>Title I, Part A Cluster</i>				
Title I Grants to Local Educational Agencies	84.010			
* Fiscal Year 12		35112-01-Z	1,302,315	734,765
* Fiscal Year 12M		35112-01-Z	-	12,371
				<u>747,136</u>
Title I, Part A Cluster subtotal				<u>747,136</u>

(continued)

ROCKCASTLE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
Migrant Education - State Grants Program	84.011A			
Fiscal Year 12		311002-12	70,200	70,200
				70,200
<i>Special Education Cluster</i>				
Special Education Grants to States	84.027			
Fiscal Year 12		58112.02.Z	574,705	574,705
				574,705
Special Education-Preschool Grants	84.173			
Fiscal Year 12		58712.03.Z	29,199	29,199
				29,199
Special Education Cluster Subtotal				603,904
Vocation Education-Basic Grants to States	84.048			
Fiscal Year 11A		33-540-3481	869	869
Fiscal Year 12		33-540-3482	18,294	18,700
				17,569
Improving Teacher Quality State Grants	84.367			
Fiscal Year 12		71012.02.Z	204,251	204,251
				204,251
<i>Education Technology State Grants Cluster</i>				
Education Technology State Grants	84.318X			
Fiscal Year 10		73610.02.Z	10,623	4,984
				4,984
Education Technology State Grants - Recovery Act	84.386A			
Fiscal Year 10		33-540-4850	25,328	18,633
				18,633
Education Technology State Grants Cluster Subtotal				23,617
Rural Education	84.358B			
Fiscal Year 12		35012.02.Z	63,494	63,494
				63,494
* EduJobs	84.410			
Fiscal Year 11		33-540-4411	810,996	784,782
				784,782
Passed Through Kentucky Adult Education				
Adult Education State Grant Program	84.002			
Fiscal Year 11S		33-540-3731S	3,087	(789)
Fiscal Year 12S		33-540-3732S	3,087	3,087
				2,298
Passed through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A			
Fiscal Year 09G		33-540-3799G	258,249	5,805
Fiscal Year 11G		33-540-3791G	293,228	339,190
Fiscal Year 12G		33-540-3792G	101,650	96,912
				441,908
Total for US Department of Education				2,959,159
Total Expenditure of Federal Awards				4,272,976

* Major Programs

ROCKCASTLE COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2012

1. Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Rockcastle County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the District-wide financial statements.

2. In-kind commodities

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are not included under the Child Nutrition Cluster. Total value of commodities received by the District was \$92,236 for the fiscal year ending June 30, 2012.

3. Cluster Programs

The following CFDA numbers are considered cluster programs:

Special Education Cluster

Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173

Child Nutrition Cluster

National School Lunch Program	10.555
National School Breakfast Program	10.553
Summer Food Services for Children	10.559

Education Technology State Grants Cluster

Education Technology State Grants	84.318X
Education Technology State Grants – Recovery Act	84.386A

Title I, Part A Cluster

Title I Grants to Local Educational Agencies	84.010
Title I Grants to Local Educational Agencies, Recovery Act	84.389

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Rockcastle County School District
Mt. Vernon, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Rockcastle County School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School Districts Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*.

Internal Control Over Financial Reporting

Management of the Rockcastle County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rockcastle County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rockcastle County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain immaterial instances of noncompliance that we reported to management of the Rockcastle County School District in a separate letter dated November 5, 2012.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Rockcastle County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CLOYD & ASSOCIATES, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
November 5, 2012

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Rockcastle County School District
Mt. Vernon, Kentucky

Compliance

We have audited Rockcastle County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Rockcastle County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Rockcastle County School District's management. Our responsibility is to express an opinion on Rockcastle County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rockcastle County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rockcastle County School District's compliance with those requirements.

In our opinion, Rockcastle County School District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Rockcastle County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Rockcastle County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rockcastle County School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 5, 2012. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Rockcastle County School District's basic financial statements. The schedule of expenditures of federal awards is presented for the

purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material aspects in relation to the financial statements as a whole.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Rockcastle County School District, the Kentucky Department of Education, management, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CLOYD & ASSOCIATES, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
November 5, 2012

ROCKCASTLE COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – MAJOR PROGRAMS

Year ended June 30, 2012

Section I – Summary of Auditor Results

Financial Statements

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

Material weakness identified

_____ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses

_____ Yes ☒ None reported

Noncompliance material to financial
statement notes

_____ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weaknesses identified

_____ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses

_____ Yes ☒ None reported

Type of auditors' report issued on compliance for
major programs

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with Section 510(a)
of Circular A-133?

_____ Yes ☒ No

Identification of major programs:

Name of Federal Program or Cluster

CFDA Number

Title I, Part A Cluster

Title I Grants to Local Educational Agencies

84.010

Title I Grants to Local Educational Agencies, Recovery Act

84.389

EduJobs

84.410

Dollar threshold used to distinguish
between Type A and Type B program

\$ 300,000

Auditee qualified as low risk

☒ Yes _____ No

ROCKCASTLE COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – MAJOR PROGRAMS – CONTINUED
Year ended June 30, 2012

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings

None.

ROCKCASTLE COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2012

There were no prior year audit findings.

Members of the Board of Education
Rockcastle County School District
Mt. Vernon, Kentucky

In planning and performing our audit of the basic financial statements, of Rockcastle County School District, for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report thereon dated November 5, 2012, on the basic financial statements of Rockcastle County School District.

During our next audit engagement, we will review the status of these comments. These comments and suggestions have already been discussed with various District personnel; however, we will be pleased to discuss them in further detail, perform any additional study of these matters, or assist you in implementing the recommendations at your convenience.

Respectfully,

CLOYD & ASSOCIATES, PSC

Cloyd & Associates, PSC
Corbin, Kentucky
November 5, 2012

**ROCKCASTLE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2012**

GENERAL COMMENTS

Audit fieldwork commenced August 18, 2012. Requested account analyses were available upon our arrival.

The finance department had information in very good condition and all personnel were helpful in retrieving any additional information needed while conducting our audit. Segregation and accounting for the various fund groups appears to be consistent with guidelines established by the Department of Education and other funding agencies.

The State Board for Elementary and Secondary Education has a uniform program of accounting for school activity funds in Kentucky schools. The uniform program is documented in a handbook entitled *Accounting Procedures for Kentucky School Activity Funds* (the Redbook). Each schools' activity funds were reviewed in accordance with the Redbook. Any findings have been documented as current year comments.

Follow-up on Prior Year Comments –School Activity Funds

Prior year comment: During testing of school activity funds the prior auditor noted the following general deficiencies in internal control. The individual schools where these issues were noted are listed:

1. Lack of Sufficient Documentation with Receipts

Statement of Condition – At three schools (**Rockcastle County High School, Brodhead Elementary and Roundstone Elementary**) there were a lack of sufficient documentation with receipts.

2. Lack of Inventory Control Worksheets

Statement of Condition – At one school (**Rockcastle High School**) Inventory Control Worksheets are not being completed monthly for concessions and in-school concessions.

3. Deposits Not Made in a Timely Fashion

Statement of Condition – At two schools (**Rockcastle County High School and Roundstone Elementary**), there were several instances where bank deposits were not made timely.

4. Purchase Orders Not Being Properly Utilized

Statement of Condition – At four schools (**Brodhead Elementary, Roundstone Elementary, Rockcastle County Middle School and Rockcastle County High School**),

**ROCKCASTLE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)
Year ended June 30, 2012**

purchase orders are not being utilized correctly. There were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

5. *Ticket Control Worksheets Not Being Fully Utilized*

Statement of Condition – At one school (**Rockcastle County High School**), there was a lack of Ticket Control Worksheets documented for events requiring the sale of tickets.

6. *Misclassification of Disbursements*

Statement of Condition – At one school (**Roundstone Elementary**), there were various disbursements that were accounted for in the wrong activity funds.

7. *Principal Not Signing/Authorizing the Purchase Order*

Statement of Condition – At one school (**Broadhead Elementary**), there were several instances of the purchase order not being signed by the principal and/or the signature was not that of the principal on the purchase order.

Current year follow-up:

1. *We noted the issue has not been resolved.*
2. *We noted the issue has been resolved.*
3. *We noted the issue has not been resolved.*
4. *We noted the issue has not been resolved.*
5. *We noted the issue has not been resolved.*
6. *We noted the issue has been resolved.*
7. *We noted the issue has not been resolved.*

Current year comment: During testing of school activity funds we noted the following general deficiencies in internal control. The individual schools where these issues were noted are listed:

Lack of Sufficient Documentation with Receipts

Statement of Condition – At one school (**Rockcastle High School**) there was a lack of sufficient documentation with receipts.

Criteria for Condition: Receipts for the activity funds should have sufficient documentation in the form of Teacher Multiple Receipt Forms and/or check remittances attached to the deposit slip and pre-numbered receipts.

Cause of the Condition: Receipts and/or deposit slips were not accompanied by sufficient documentation.

**ROCKCASTLE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)
Year ended June 30, 2012**

Effect of the Condition: Receipts could not be fully tested for completeness and accuracy.

Recommendation for Correction: All receipts should be accompanied by a deposit slip, teacher multiple receipt forms, check remittances, and/or any other documentation of what is being deposited.

Management Response to the Recommendation: All receipts will be accompanied by a deposit slip, teacher multiple forms, check remittances, and/or any other documentation of what is being deposited.

Purchase Orders Not Being Properly Utilized

Statement of the Condition: At four schools (**Rockcastle County High School, Rockcastle County Middle School, Roundstone Elementary, and Brodhead Elementary**) purchase orders are not being utilized correctly. There were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Criteria for the Condition: A Purchase Order shall be prepared by the appropriate personnel and approved by the sponsor or principal before the payment is obligated.

Cause of the Condition: The person requesting the spend activity fund monies is not preparing the Purchase Request and receiving documented approval from the Principal before the monies are obligated or spent.

Effect of the Condition: Without proper purchasing procedures, the purchase of inappropriate materials or services, and over-spending of monies in each activity account can occur.

Recommendation for Correction: The person requesting to make a purchase will prepare a Purchase Request and have it approved by the sponsor and principal. The approved purchase order shall then be notated by the vendor on the invoice of goods or services.

Management Response to the Recommendation: The person requesting to make a purchase will prepare a purchase request and have it approved by the sponsor and principal. After proper approval, a purchase order number shall be issued so the expenditure can be purchased or ordered. The approved purchase order shall then be notated by the vendor on the invoice of goods or services.

Deposits Not Made in a Timely Fashion

Statement of the Condition: At four schools (**Rockcastle County High School, Rockcastle County Middle School, Brodhead Elementary and Roundstone Elementary**), there were several instances where bank deposits were not made timely.

**ROCKCASTLE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)
Year ended June 30, 2012**

Criteria for the Condition: Good internal control procedures requires timely deposit of cash received and the Redbook requires deposits greater than \$100 to be made daily.

Cause of the Condition: Several deposits were made less often than daily even though receipts were above \$100 for the day.

Effect of the Condition: When cash is on hand, it is more susceptible to theft.

Recommendation for Correction: Bookkeepers should make daily deposits, especially when the amount is greater than \$100.

Management Response to the Recommendation: Bookkeepers will make daily deposits, especially when the amount is greater than \$100.

Ticket Control Worksheets Not Being Fully Utilized

Statement of the Condition: At one school (**Rockcastle County High School**) there was a lack of Ticket Control Worksheets documented for events requiring the sale of tickets.

Criteria for the Condition: Any event requiring selling tickets, a ticket control worksheet must be utilized and completed with the initial delivery of monies to the bookkeeper.

Cause of the Condition: Ticket control worksheets are not being completed for all required events.

Effect of the Condition: Without the ticket control worksheets, the bookkeeper and principal have no review control over the ticket seller at the event.

Recommendation for Correction: Utilize a ticket control worksheet for every event that sells tickets for entry into the event.

Management Response to the Recommendation: All events requiring the sale of tickets for entry into an event will utilize a ticket control worksheet.

Principal Not Signing/Authorizing the Purchase Order

Statement of the Condition: At two schools (**Rockcastle County High School and Brodhead Elementary**) there were several instances of the purchase order not being signed by the principal and/or the signature was not that of the principal on the purchase order.

Criteria for the Condition: The principal must sign all purchase orders before any service or product is ordered. No stamp signatures can be used for this process.

Cause of the Condition: The principal is not signing all purchase orders before the purchasing process.

**ROCKCASTLE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)
Year ended June 30, 2012**

Effect of the Condition: The authorization process for disbursements is not occurring; therefore, purchasing controls are circumvented.

Recommendation for Correction: The principal must sign all purchase orders before the purchase process occurs.

Management Response to the Recommendation: The principal, and only the principal, will sign all purchase orders before the purchase process occurs.

Lack of Use of Teacher Multiple Receipt Forms

Statement of the Condition: At one schools (**Brodhead Elementary**) there were a lack of documentation of multiple receipt forms with deposit documentation.

Criteria for the Condition: All money collected by teachers/sponsors must be accompanied with a multiple receipt form detailing collections from students.

Cause of the Condition: Teachers/sponsors are not completing the multiple receipt form when collecting monies from students.

Effect of the Condition: The authorization process for deposits is not occurring; therefore, deposit controls are circumvented.

Recommendation for Correction: All teachers/sponsors must complete a multiple receipt form when collecting monies from students.

Management Response to the Recommendation: The principal will insure that each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form is properly completed, signed and dated at which time they will turn the form over to the school activity fund treasurer who will sign and date the form appropriately.

We recommend the Board complete annual Redbook training and emphasize the importance of accurate and compliant accounting for activity funds.

Board Response: The District is continuing to train employees to be in full compliance with the Redbook. The District expects proper procedures will be followed in fiscal year 2012-2013.